CHAPTER 7

FINANCIAL ACCOUNTING AND REPORTING

The AEA board shall provide data and prepare reports as directed by the director of the department of education (273.3(3)).

The AEA shall file an annual report with the director of the department of education on forms prepared for that purpose (291.10).

Uniform Financial Accounting (UFA)

One of the duties of the department of education is to prepare forms and procedures as necessary to be used by AEA boards, district boards, school officials, principals, teachers, and other employees, and to insure uniformity, accuracy, and efficiency in keeping records in both pupil and cost accounting, the execution of contracts, and the submission of reports, and notify the district board or school authorities when a report has not been filed in the manner or on the dates prescribed by law or by rule that it will not be accredited until the report has been properly filed (256.9(18)). The procedure prescribed by the department of education and required of LEAs and AEAs is use of the most current edition of *Uniform Financial Accounting for Iowa LEAs and AEAs*. This manual covers the details of this financial management information system and is available on the department of education's web site at http://www.state.ia.us/educate/publications/manuals.html.

The department of education is authorized to prescribe a uniform system of accounting. That system is Uniform Financial Accounting (OAG #83-12-1(L)).

The basic philosophy of Uniform Financial Accounting (UFA) includes:

1. The chart of accounts encourages full disclosure of the financial position of the LEA/AEA. Emphasis is placed on the accurate classification of financial transactions. Expenditures are recorded in the accounting categories applicable, regardless of the implications of some of those decisions;
2. Comprehensiveness of financial reporting is encouraged. The LEA/AEA should incorporate all financial activities into a single accounting and reporting system for full disclosure. The account classifications encourage this procedure. Accounts for such activities as food services, student activities, community services and commercial-like enterprises all should be included in the financial reports of the LEA/AEA.
3. Simplified reporting is encouraged. GAAFR encourages using the minimum number of funds necessary for legal and operational use. Only the minimum number of funds consistent with legal and operating requirements should be established, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.
4. Financial reporting emphasizes the results of LEA/AEA operations more than the resources applied. The account code structure emphasizes program accounting and the application of supporting services costs to the "products" of the educational entity;
5. The account classification system is flexible: it meets the needs of both small and large LEA/AEA's while retaining comparability of reported data. The guideline of UFA include a minimum list of accounts essential for federal and state reporting. They also provide a variety of optional classifications for LEA/AEA's interested in a more comprehensive approach to financial accounting and reporting;
6. The classification of accounts and the recommended reporting structure remain in accordance with generally accepted accounting principles (GAAP).

Generally Accepted Accounting Principles (GAAP)

School districts and AEAs are required to conform to GAAP commencing with the school year beginning July 1, 1996 (257.31(4)).

Legal provisions may conflict with GAAP. Statement 1 of GAAFR says, "Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary....Conflicts between legal provisions and GAAP do not require maintaining two accounting systems. Rather, the accounting system may be maintained on a legal compliance basis, but should include sufficient additional records to permit GAAP-based reporting."

When GAAP provides more than one method for accounting for a financial transaction, the department of education may determine which method will be used for school districts and AEAs to ensure consistency in reporting as required by Iowa Code (256.9(18)).

A primary emphasis of UFA is to define account classifications that provide meaningful financial management information to its users. As part of this emphasis, Uniform Financial Accounting is written to conform to GAAP, a uniform minimum standard of and guidelines for financial accounting and reporting. For LEA/AEA's, adherence to GAAP implies that their financial reports contain the same types of financial statements for the same categories and types of funds and account groups. Such conformity will enhance the comparability of LEA/AEA financial reporting. The twelve principles applicable to LEA/AEA's are summarized below:

1 Accounting reporting capabilities. An LEA/AEA's accounting system must be capable of producing financial reports in conformity both with GAAP and with legal requirements if the two are different;

2 Fund accounting system. The LEA/AEA accounting system must be organized and operated on a fund basis;

1. Types of funds. Only fund types accepted by GAAP should be used by LEA/AEA's. These funds are:
   a. Governmental Funds:
      (1) General Funds
      (2) Special Revenue Funds
      (3) Capital Projects Funds
      (4) Debt Service Funds
      (5) Permanent Funds
   b. Proprietary Funds:
      (6) Enterprise Funds
      (7) Internal Service Funds
   c. Fiduciary Funds
      (8) Private Purpose Trust Funds
      (9) Pension Trust Funds
      (10) Agency Funds
2. Number of funds. An LEA/AEA should establish and maintain the least number of funds possible;
3. Accounting for fixed assets and long-term liabilities. Fixed assets and long-term liabilities not related to specific proprietary funds or trust funds should be accounted for in the general fixed assets and general long-term debt account groups, respectively. These account groups are eliminated by GASB 34, but the information still will be reported in the entity-wide financial statements in audits;
4. Valuation of fixed assets. LEA/AEA fixed assets should be recorded at cost or estimated cost. Donated fixed assets are recorded at fair market value;
5. Depreciation of fixed assets. Depreciation should not be recorded in the accounts of the governmental funds. If depreciation in governmental funds is required for cost accounting purposes it may be recorded in the general fixed assets account group. Depreciation of proprietary fund fixed assets should be recorded in the accounts of that fund. Under GASB 34, depreciation for fixed assets in governmental funds will be reported on the entity-wide financial statements in audits;
6. Accrual basis in governmental accounting. The accrual basis of accounting should be used for proprietary funds. non-expendable trust funds and pension trust funds. The modified accrual basis of accounting should be used for governmental funds and expendable trust funds. Under GASB 34, expendable and non-expendable trust funds are eliminated and are replaced with special revenue trust funds, permanent funds, and private-purpose trust funds.
7. Budgeting, budgetary control, and budgetary reporting. Every LEA/AEA should adopt annual operating budgets and certain of those budgets should be reported in the financial statements;
8. Revenue, expenditure, transfer, and expense account classifications. An LEA/AEA should provide for the classification of revenues, expenditures, and expenses into certain specific categories. Interfund transfers and the proceeds from general long-term debt should be classified separately from revenues and expenditures or expenses;
9. Common terminology and classifications. An LEA/AEA should consistently utilize terminology and classifications common to the funds maintained;
10. Interim and annual financial reports. A comprehensive annual financial report should be issued by every LEA/AEA. Interim financial statements should be prepared to facilitate management control of financial operations. These may be made available externally.

Some of the above information will change with the implementation of GASB Statement 34.

Types of Education Agencies

To keep the references to the different levels of education agencies simple and concise, Uniform Financial Accounting uses the following terminology:

- Local Education Agency, or LEA, refers to an education agency at the local level which exists primarily to operate schools or to contract for educational services. Normally, such publicly operated agencies may levy taxes for school purposes. This term is used synonymously with the terms “school district,” “school system,” “school corporation,” and “local basic administrative unit”;
- Area Education Agencies, or AEAs, are intermediate units of government in between local and state levels having some independent fund-raising and dependent taxing capability;
- State Education Agency. or SEA, refers to State departments of education;
- Federal Education Agency, or FEA, as used here refers to any Federal agency or subdivision having responsibilities for supporting or delivering education services. It particularly refers to the U.S. Department of Education and its various subdivisions.

Comparability

Using the classifications and definitions in UFA will enhance comparability of recorded and reported financial information among LEA/AEAs, the States and the Federal Government. This comparability should provide assistance to LEA/AEA, State and Federal administrators, legislators, LEA/AEA boards of education and the general public in understanding where funds come from and how they are used.

When GAAP provides a choice between one or more accounting methods, it is the responsibility of the Department of Education to determine which method will be used to insure consistent uniformity, accuracy, and efficiency as required by section 256.9(18)). Those determinations are discussed as follows.

Encumbrances

An LEA/AEA may establish an encumbrance system for any obligation not liquidated at the close of the fiscal year in which the obligation has been encumbered. The encumbered obligations may be retained upon the books of the school district or AEA until liquidated, all in accordance with general accepted governmental accounting practices (24.34). However, because of the impact on comparability, maintaining encumbrance balances at the close of the fiscal year is discouraged in LEAs or AEAs.

Crediting an Expenditure Account

In nearly all situations, including whole grade sharing and other shared contracts, receipts to a school district or AEA are shown on the books as revenues and are not used to reduce an expenditure account. There are a few exceptions to this if the transaction occurs within the same fiscal year as the expenditure:

1. To correct an error in an expenditure line item.
2. To show a true refund from the original vendor such as for a return of merchandise.
3. To show a true refund that would have come from the original vendor except that Iowa law requires school districts or AEAs to obtain refunds from the state such as gas tax and construction sales tax refunds.
4. To show a transaction involving the resale of an inventory-type item on a nonroutine basis, where the inventory item was never placed in service by the school district or AEA. An example would be one school district purchasing 500 computers bulk to take advantage of lower prices, then "reselling" 300 at cost to neighboring districts.
5. To show a transaction involving a relatively straightforward agency relationship in which the district/AEA (or fund) provides no service other than acting as a fiscal intermediary. An example would be when a district pays cooks with regular payroll from the General Fund, then moves money from the School Nutrition Fund to cover those expenditures. In that case, the expenditure accounts in the General Fund are credited and General Fund cash debited to reflect the reimbursement from the School Nutrition Fund. The expenditure accounts in the School Nutrition Fund would be debited to reflect the correct entries by object. This would not be reported as a fund transfer.

Shared contracts and tuition-related sharing do not fall into the above categories. In these cases, for example, the school district or AEA has hired a curriculum coordinator and is "selling" the service of that coordinator to another school district or AEA or the school district or AEA is "selling" a commodity it produced called "education" to another school district or AEA. The first district is not acting as a fiscal intermediary nor is it receiving a true refund from the original vendor, and, therefore, all such receipts are revenues.

Interagency Transactions

School districts and AEAs are required to budget, account for, and report each and every expenditure. Interagency transactions including whole and partial grade sharing, personnel sharing, and other sales of services are shown gross and shall not be shown net. If the agencies bartered for services rather than issuing payments, the barter is reported as if payment had been made.

Consortium Accounting

In a consortium, multiple LEAs pool grant moneys and one LEA or AEA administers the funds and coordinates and executes the projects.

As a general rule, cash pass-through grants should be recognized as revenues and expenditures in a governmental fund (almost always, the general fund). In those cases where a recipient government serves only as a cash conduit (fiscal agent), the grant should be reported in an agency fund with only the fiscal agent's own portion of the grant reported in the governmental fund. A recipient government serves only as a cash conduit if it merely transmit grantor-supplied money without having administrative or direct financial involvement in the program.

It is recommended that any district or AEA discuss with its auditor whether or not it's role is that of a fiscal agent as defined by GASB statement 24, paragraph 5 for purposes of each pass-through grant or consortium arrangement.

Accounting by the fiscal agent:

- The entire grant is receipted into the agency fund.
- That school district's own portion is disbursed to the general fund. The fiscal agent will use the source and project code as defined in Uniform Financial Accounting for that grant.
- The fiscal agent's own district's share of expenditures is recorded in the general fund. The fiscal agent will use the project code as defined in Uniform Financial Accounting for that grant.
- As expenditures are made, the expenditures on behalf of the other districts are accounted for in the agency fund, These should be recorded using some coding to indicate each district's share so that each district can record their share in their accounting records.

Accounting by the other members of the consortium:

- The district will record as revenue in the general fund its share of the grant when received by the fiscal agent. The district will use source code 47XX since the grant was received through an agency other than the state or federal government. The district will use the project code as defined in Uniform Financial Accounting for that grant.
- The cash account used will be "Cash Held by Fiscal Agent" since the district did not receive the cash for this account.
- If the district pays its own grant expenditures and then is reimbursed from the fiscal agent, the district will record its grant expenditures in the general fund as they occur using the project code as defined in Uniform Financial Accounting for that grant.
- If the fiscal agent handles all of the grant expenditures to vendors, employees, etc. directly and then prepares an accounting to each member district, then the member district will record its share of these expenditures periodically, but at least quarterly (September, December, March, and June).
- If at the end of the fiscal year, the entire grant has not been expended, the balance remaining with the fiscal agent will be reported in the cash account "Cash Held by Fiscal Agent." and as Deferred Revenue. The amount reported as expenditures is the amount of grant revenues expended by the fiscal agent on behalf of the district, and not the amount actually paid to the member district (reimbursement method) or actually paid out by the fiscal agent (fiscal agent paying all expenditures on behalf of member districts method). The revenue amount reported is the amount of grant revenues reported as expended.

Inventories

In governmental funds, GAAP allow either consumption method or purchases method for accounting for inventories. For consistency, if inventories are significant, the consumption method will be used. Inventories will be reported as assets when purchased and reported as expenditures when consumed. There would be no reserve for inventories. If inventories are not significant, the purchases method may be used. It is not necessary to report insignificant inventories on the balance sheet, however if inventories are reported as an asset on the balance sheet when using the purchases method, an equal amount will be reported as a reserve for inventories.

Prepaid Expenditures

In governmental funds, GAAP allow either consumption method or purchases method for accounting for prepaid expenditures such as insurance or rent. However, different than inventories, GAAP do not require that significant balances of prepaid expenditures be reported on the balance sheet as an asset and as a reserve for prepaid expenditures. For consistency, prepaids will use the purchases method and will not be reported on the balance sheet.

Reserving and Designating Fund Balance

The board may set aside funds for a particular purpose to the extent allowed by the accounting system designated by the department of education and local budget law (OAG #83-12-1(L)).

In order for fund balance to be classified in this manner, it must meet the following criteria:

1. Unemployment. AEAs and school districts that do not contribute on a regular basis to the unemployment program may designate for this purpose.
   a. The maximum amount is no more in one year than the amount that would have been "contributed".
   b. The maximum amount that may be accumulated is five times the current annual calculation as provide in (1) above.
   c. Payments to be made in a fiscal year shall reduce the designated balance so that "b" continues to apply.
   d. The designation shall report the special education support services division separate from other general fund balance.
   e. The use of the designated balance shall account for the special education support services division separate from other general fund balance.

1. Replacement of Equipment:
   a. A Replacement of equipment designation shall be for specific items, and not for general contingency.
   b. The designation shall be the result of a written purchase plan which includes:
      (1) Description of specific item.
      (2) Estimated cost less estimated trade-in.
      (3) Approval by the AEA or school district board (and the DE if an AEA).
      (4) Number of years needed to accumulate sufficient funds—maximum of five years.
      (5) Assignment to the proper division if it is the special education support services division.
   c. No minimum amount is set, except that the planned purchase dollar amount must represent an extraordinary expenditure if it were to be made in a single year.
   d. No maximum amount is set, except it must be reasonably expected that the amount accumulated will be sufficient to make the purchase.
   e. Upon purchase of the item, the designation is to be depleted.

2. Initial Purchase of Equipment. The same criteria apply for this category as for the replacement of equipment category, except trade-in value is not a consideration for an initial purchase.
3. Building Remodeling, Construction, or Purchase (school districts only). The same general criteria apply for building remodeling, construction, and purchase as do for equipment purchase, with these additional considerations:
   a. The remodeling, construction, or purchase must satisfy legal requirements of the Code that apply to remodeling, construction, and purchase.
   b. If the building is leased and the owner is to pay for the remodeling or construction, the designated category may not be used in that the owner has the ability to spread the cost over several years.
   c. If the building is leased and the school district is to pay for the remodeling or construction, the designation plan must include a written agreement between the school district and the owner.
   d. If the building is owned by the school district, the designated category may be used in a manner similar to equipment purchase.
4. Building Lease-Purchase. The same general criteria apply as for 3 and 5 above, except that only the actual amount of principal and interest payment on the lease-purchase that is due in the first subsequent period may be designated, and no amounts may be accumulated. This designation category may only be used by an AEA after state board approval has been given to enter into the lease-purchase agreement.

Capitalized Leases and Installment Purchase Contracts

a. At the inception of the agreement, the asset acquired and the related liability are simultaneously recorded in the General Fixed Assets and General Long-Term Debt Account Groups respectively, in amounts equal to the present value of the total future payments.
b. An entry is also simultaneously made in the fund from which the payments will be made, debiting a capital outlay expenditure account and crediting an "other financing source" in an amount equal to the present value of the total future payments. Payments during the life of the agreement are then treated as interfund transfers from the general fund to the debt service fund and as debt service fund expenditures.

Petty Cash

Petty cash shall be handled on an imprest basis:

1. The existence and amount of petty cash funds is authorized by board action.
2. Cash on hand plus the total of all "expenditure" receipts/vouchers is always equal the original amount of the petty cash fund.
3. Cash received is receipted and deposited at the bank into the appropriate fund, not placed in petty cash. Petty cash funds is not used to cash checks and other receipts to the district are not used to replenish petty cash.
4. Petty cash is balanced at least once a month.
5. Cash "over" is deposited at the bank and accounted for as a revenue.
6. Cash "under" is accounted for as an expenditure.
7. The "expenditure" receipts/vouchers is attached to a requisition requesting reimbursement. Code the reimbursement according to the type of expenditures on the receipt/vouchers using the usual procedures used for any other expenditure request.
8. A check is issued for the exact amount of those expenditures on the receipt/vouchers so that petty cash will again be the original amount of cash.
9. Petty cash funds shall not be used to circumvent the audit and allowance provisions in the Iowa Code.

Per Pupil Expenditures

The pupil head counted used for per pupil expenditures in AEAs is the enrollment served (public plus approved nonpublic) in the base year. Media and educational services are funded according to enrollment served. Special education support is funded according to weighted enrollment. However, enrollment served is a more appropriate count since the weighted enrollment does not represent an actual count, but includes formula variations.

Proof of Cash

A proof of cash helps identify error types for differences between the books and the bank statements:

	Balance 6/30/Yr 1	Deposits	Withdrawals	Balance 6/30/Yr 2
Per bank	4523.82	10000.00	14000.00	523.82
Deposits in transit:				
6/30/Yr 1	3295.66	-3295.66		
6/30/Yr 2		1860.75		1860.75
Outstanding checks:				
6/30/Yr 1	-1620.00		-1620.00	
6/30/Yr 2			983.00	-983.00
True adjusted Cash balance	6199.48	8565.09	13363.00	1401.57
Per books:	6199.48	7000.00	13263.00	-63.52
Unrecorded deposit:		1565.09		1565.09
Math error on check:			100.00	100.00
True adjusted Cash balance:	6199.48	8565.09	13363.00	1401.57

A regular bank reconciliation would only indicate that the bank shows 1465.09 more than the books. A proof of cash pinpoints specifically that there was a 100.00 error in disbursements and a 1565.09 error in receipts.

Internal Control of Vending Machines

1. Observe the vendor filling the machine or count/verify that all merchandise was received. Generally, it is better internal control to keep no inventory on hand other than in the machine.
2. Designate a staff member weekly (more or less often as necessary) to remove the money from the machine, inventory the merchandise in the machine, and record the number on the machine counter.
3. Do a vending machine recap similar to a ticket recap for gate receipts:

a. Subtract the beginning machine count from the ending machine count. Multiply this by the selling price to determine how much cash should have been collected.
b. Add beginning inventory plus inventory added during the period less ending inventory. Again, multiply this by the selling price to determine how much cash should have been collected.
c. Count the cash collected from the machine (excluding the standard amount of change left in the machine),
d. All three counts should match.

4. Better internal control will be maintained if the individual designated to remove money from the machines is switched with no warning and no pattern.

If the vending machines the district has do not have counters, request counters be added or machines be replaced. Counters are very important to internal control.

Indirect and Direct Costs

A true allocation of indirect costs from supporting programs to operating programs is generally not done in educational accounting. The expenditures related to supporting programs are maintained separately in the accounting system. This allows program managers to be accountable for maintaining their own expenditures. They would have little control over indirect costs. Therefore, calculation of indirect costs necessary for federal awards is largely a paper calculation generally not reported in the accounting system. If the district or AEA desires to report the indirect costs in the accounting records, the expenditure is reported as a credit to the 950 expenditure objects under the 2500 function and an equal amount is reported in other functions as debits to the 950 expenditure objects. The total of all 950 objects related to indirect costs will be zero.

Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments regulates how indirect costs and restricted indirect cost rates are calculated and applied for federal award purposes. The purpose of applying indirect cost rates is to provide that federally-assisted award programs bear their fair share of costs without profit or other increment above cost.

Allowable Costs

To be allowable under a federal award program, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of federal award.
b. Be allocable to federal awards under these provisions of Circular A-87.
c. Be authorized or not prohibited under state or local laws or regulations.
d. Conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.
e. Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.
f. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as in indirect cost.
g. Except as otherwise provided for in Circular A-87, be determined in accordance with generally accepted accounting principles.
h. Not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period, except as specifically provided by federal law or regulation.
i. Be the net of all applicable credits.
j. Be adequately documented.

Direct Costs

Direct costs are those that can be identified specifically with a particular cost objective. Typical direct costs chargeable to federal awards are:

a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.
b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
c. Equipment and other approved capital expenditures.
d. Travel expenses incurred specifically to carry out the award.

Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

Indirect Costs

Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

An indirect cost rate is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs pool to a direct cost base. A restricted indirect cost rate is required for grant awards which are subject to the "supplement but not supplant" restrictions.

The indirect cost pool is the accumulated costs that jointly benefit two or more programs or other cost objectives.

The direct cost base is the accumulated direct costs, exclusive of any extraordinary or distorting expenditures, used to distribute indirect costs to individual federal awards. The direct cost base should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

The federal government and the Iowa department of education have negotiated a five-year plan for determination of indirect costs and restricted indirect costs for subrecipient school districts and AEAs. These rates will serve as the sole basis for budgeting and allocating direct cost reimbursement under federal programs. The application of these rates is binding on all federal agencies and subject to periodic review pursuant to single audit requirements for state and local governments.

The plan follows the simplified method of calculating indirect cost rates. The allocation of indirect costs will be accomplished by classifying each agency's costs as direct, indirect, or excluded and dividing the allowable indirect costs by the modified total direct costs. Total costs will be reduced to reflect expenditures that benefited other LEAs or AEAs and that have been offset by reimbursements from other LEAs or AEAs. This approach will apply to both restricted and unrestricted indirect cost rates. The information necessary to complete the calculation of indirect cost rates will be taken from each agency's completed CAR.

Direct costs are allowable costs of the LEA or AEA that benefit particular functions or programs. Direct costs can be identified specifically with a particular final cost objective. Excluded costs are those which by the nature of the expense, or because the nature of the costs require minimal administrative support, must be excluded from both the direct and indirect classification. Excluded costs include food purchases, property-related expenditures, taxes, interest, and refunds of prior year revenues. Indirect costs are central service costs that benefit more than one function or program of the agency. Indirect costs are further identified as either "restricted" or "unrestricted." Restricted indirect costs may only be claimed for certain federal programs. Unrestricted indirect costs may be claimed for federal programs that are not specifically declared as restricted.

Direct costs are accumulated into a direct cost base. The direct cost base is modified to reflect reimbursable expenditures for services provided to other LEAs or AEAs (such as shared personnel contracts, tuition, transportation, data processing, purchasing, maintenance, cleaning, and consulting). Indirect costs are accumulated into an indirect cost pool. An indirect cost rate is calculated by dividing the indirect cost pool by the modified direct cost base.

The Iowa department of education will calculate annually indirect cost rates, restricted and unrestricted, for each LEA and AEA from expenses delineated within the CAR. Expenditures from the second preceding year will be used to complete the indirect cost rates for the current fiscal year. By means of a computer application, the matrix will be applied and data for each LEA or AEA will be brought into the appropriate calculation. Total indirect costs will be divided by the total direct costs after exclusions and adjustments, and the indirect cost rate will be determined.

After the indirect cost rate is determined, the Iowa department of education will notify each LEA or AEA of the maximum restricted rate it may use. Applying the maximum restricted rate against the direct costs of the award will generate the maximum indirect costs that may be recovered from the award. If the grant award contains costs that are excluded from the direct or indirect cost base, the direct costs of the awards will be modified to reflect the elimination of these costs from inclusion in the indirect cost reimbursement calculation. State managers of federal programs may assign to LEAs or AEAs more restricted levels of direct costs for application of the rate, thereby reducing total indirect cost recovery. Additionally, the LEA or AEA may elect to apply a rate that is less than the approved rate, including a rate of zero.

State managers of state programs, if Iowa Code authorizes recovery of indirect costs as an allowable expenditure from a state program, may also assign to LEAs or AEAs the indirect cost rates calculated above and may assign to LEAs or AEAs more restricted levels of direct costs for application of the rate, thereby reducing total indirect cost recovery from state programs. As with the federal programs, when recovering of indirect costs is allowable, the LEA or AEA may elect to apply a rate that is less than the approved rate to state programs, including a rate of zero.

Maintenance of Effort

Each federal program that contains a “supplement, not supplant” clause has a maintenance of effort calculation. The calculation for the federal program is published in the federal register. Although most calculations compare total current expenditures in excess of all federal revenues in one year to the same calculation in the previous year, some calculations use revenue numbers or budget numbers.